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International Issues Review

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October 1983

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International Issues Review

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This publication is produced by the Office of Global Issues. Some issues contain articles drafted in other offices. Some articles are preliminary or speculative in nature, but the contents are formally coordinated as appropriate with other offices within CIA. Occasionally an article represents the views of a single analyst; these items are clearly designated as uncoordinated views.

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	Portugal's arms export industry has concentrated on servicing sales to Iran and Iraq, and training and sales to former Portugese colonies in Africa. Lisbon's minor role in the international arms market has helped support Western interests in Africa and the Middle East, but Lisbon has also demonstrated a willingness to tie US base agreements to a commitment by Washington to let Portugese firms service some US equipment.		25X1
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	We believe that the sales of spare parts and servicing for weapons systems will become an increasingly important part of the international arms market. Because such sales are underreported, efforts are being made to estimate their magnitude more correctly.		25X1

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International Aid**The International Refugee Problem**

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[redacted] *OGI, Geography Division*

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There are some 11 million people currently seeking refuge outside their own countries, of which almost 8 million require assistance from the international community. As their burden has grown, some countries have expressed reluctance to increase their support for refugees, which could lead to pressure on the United States to increase its effort and has amounted to 30 to 40 percent of the refugee assistance over the past 10 years. [redacted]

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Narcotics**Bolivia: Drug Business Booming**

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[redacted] *ALA*

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President Siles has not curbed the burgeoning problem of coca production and trafficking, and he seems unlikely to do so in the future despite his promises and US pressure for more effective control. [redacted]

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Comments and queries are welcome. They may be directed to the authors, whose names are listed above. [redacted]

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Nuclear Proliferation

The "Gray Market" in Nuclear Materials: A Growing Proliferation Danger

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Summary

Several developments in the past decade have facilitated the growth of an international clandestine market in nuclear materials. Competition for sales, which increased with the emergence of new suppliers of these materials, has helped to erode the Western exporters' consensus on the regulation of trade in nuclear materials. At the same time, some proliferators—generally working with one of the small number of international brokers—have become increasingly sophisticated in their efforts to circumvent established nonproliferation guidelines. These "gray market" activities severely strain the global nonproliferation regime that is not now comprehensive enough to regulate such activity.

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Emergence of the Gray Market

Gaps in the coverage and effectiveness of the global nonproliferation regime have facilitated the development of a gray market in nuclear materials.¹ The regime prohibits government sales of certain sensitive nuclear materials and technologies to nonnuclear weapons states in order to discourage the use of nuclear technology for nonpeaceful purposes. It operated reasonably well as long as the suppliers of nuclear materials were few and they shared a common view on the types of materials and assistance requiring regulation. In the past decade, however, several developments have contributed to the spread of nuclear technology to many countries, which made it easier for a clandestine nuclear market to develop and operate. These changes include the:

- Emergence of new suppliers of nuclear materials.

- Erosion of the Western suppliers' consensus on a "philosophy" of regulation in the face of economic competition.
- Growing sophistication of Third World proliferators in circumventing established nonproliferation guidelines.

The nuclear gray market thrives in this environment. Venturesome entrepreneurs have made large sums of money in recent years by brokering clandestine nuclear sales. They operate by exploiting ambiguous domestic export control laws and less than comprehensive international regulations.

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Motivations

Governments or firms in countries that pose a proliferation threat generally use the gray market to acquire nuclear materials or assistance because it offers opportunities to conceal or partially conceal nuclear

¹ The gray market in nuclear materials involves the sub rosa transfer of nuclear equipment, materials, or technologies. Many gray market activities are technically legal under national export laws but violate the spirit of a country's nonproliferation policies and/or international agreements.

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transactions, according to US State Department reporting [redacted]
Specifically, buyers turn to the gray market because it may provide:

- The *only* source of a nuclear material that is legally embargoed to a potential proliferator.
- An *unregulated* source of a nuclear material for a country that wants to acquire unsafeguarded materials for its indigenous program.
- A *convenient* way for a country to disguise its nuclear intentions and avoid the political and diplomatic problems of dealing on a formal government-to-government level. [redacted]

From the seller's perspective, clandestine nuclear-related sales have helped maintain the financial solvency of many West European nuclear firms. Nuclear firms in West Germany, Italy, Switzerland, and Belgium increasingly use middlemen to mask sales of potentially sensitive nuclear products to developing countries for use in their nuclear programs, according to Embassy reporting [redacted]
Some West German firms, for example, have relied on brokers in Switzerland and the Netherlands to buy many of their products. The firms thereby avoid strict export control laws that would apply to direct shipments. Furthermore, the governments in these countries—subject to substantial commercial pressures to export—often take a relaxed attitude toward brokers' activities. [redacted]

Anatomy of a Gray Market Transaction

A typical gray market nuclear transaction generally follows a set pattern. First, the government of a proliferating country either directly or through a cover firm solicits price quotations for the nuclear material sought. Governments vary in how they carry out this first step, according to [redacted]
[redacted] US State Department reporting. Pakistan, for example, frequently deals through dummy firms set up by its procurement officers who operate under diplomatic cover out of Pakistani Embassies in Western Europe. India, however, usually does not go to such elaborate ends to launder its nuclear purchases. It usually lists legitimate private firms rather than government facilities as the purchaser. Argentina's Atomic Energy Commission, on the other hand, negotiates directly with West European firms and brokers.
[redacted]

In the second step, a procurement official may go directly to a West European nuclear firm or may commission a broker to arrange the nuclear-related purchase. [redacted] the more sensitive the acquisition, the more likely a broker will be used to disguise the sale. A line of credit at a bank subsequently is opened in the broker's name, and delivery of the goods is arranged. [redacted]
[redacted] the three most common methods of making gray market deliveries are:

- Export of nuclear equipment as component parts where the components alone appear innocuous and may not require an end-use declaration under national export laws.
- Falsification of end-use statements if delivery is made directly to a country of obvious proliferation concern, such as Pakistan.
- Transshipment of the nuclear-related goods to a third country with lax national export control laws. The United Arab Emirates and Turkey often are used as third-country transshipment points because of their loose export control scrutiny.

According to Embassy [redacted] the general pattern of a well-known Dutch broker, for example, is to set up a line of credit in the Netherlands, funded by Pakistan's Engineering Research Laboratory, to buy nuclear material from West German or Swiss firms. This material is then exported to another West European or Middle Eastern country for ultimate delivery to Pakistan. [redacted]

The Brokers

We have been able to identify through [redacted]
[redacted] State Department reports three brokers who have been active in providing nuclear-related materials to Third World proliferators, particularly Pakistan and Argentina. They are:

- Heinz Mebus who, working out of West Germany, has been Pakistan's major clandestine source of centrifuge enrichment technology, [redacted]
[redacted] Mebus's success as a broker is notable

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because many of the materials he has shipped are on "trigger" lists of sensitive transfers established by the London Suppliers Group and whose export to Pakistan is prohibited. We believe this success is attributable in significant measure to Mebus's successful exploitation of gaps in West German export laws. Because Mebus's firm is small—a one-person company, [redacted]—it is exempt from many of West Germany's strict domestic laws governing exports that apply to larger firms. Mebus is aided further by the West German Government's opposition—shared by other West European governments—to significant tightening of nuclear export controls on the grounds that controlling "dual-use" technologies is impossible and violates precepts of "free trade."

- Henk Slebos, operating from the Netherlands, has been instrumental in acquiring additional components for Pakistan's secret uranium enrichment efforts. He also has helped Pakistan to procure nuclear weapons components. Slebos's procurement activities for Pakistan follow a pattern similar to Mebus's. He exploits a combination of loose domestic export scrutiny and governmental resistance to the spirit of rigorous regulation of nuclear materials, lest the Dutch nuclear industry be economically disadvantaged.
- Alfred Hempel, a West German whose company is located in Switzerland, has brokered sales of heavy water and enriched uranium from China to Argentina, South Africa, and India, according to Embassy reporting. In one series of transactions in the fall of 1982, Hempel's West German firm instructed its Swiss affiliate to ship by air to Argentina 50 tons of heavy water purchased from China, routing the delivery through the United Arab Emirates and London. An internal West German investigation of this unsafeguarded transaction concluded that no German export laws were broken because none of the nuclear material entered West Germany. [redacted]
[redacted] Hempel may be brokering a new delivery of Chinese-origin heavy water to Argentina. [redacted]

Prospects

We believe sub rosa procurement networks in nuclear materials is likely to grow, as the financially lucrative business of brokering nuclear materials trade attracts more entrepreneurs. As long as domestic commercial pressures to permit a wide gamut of nuclear exports remain high, West European suppliers are unlikely to view the proliferation impact of gray market activities as a serious political problem.² Furthermore, the difficulties all Western governments face in regulating the transnational dealings of private firms within their borders also are unlikely to lessen. Even when illegal activities become known to a government, it is hard to prosecute because of the transnational nature of the broker's activities. The lack of effective international regulation of their activities facilitates the business of gray market operations. Confidence in the nonproliferation regime may be seriously strained as gray market activities continue because the regime has few, if any, regulatory mechanisms to stop such activities. [redacted]

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Arms Transfers

Egyptian Military Purchases From the Warsaw Pact

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Summary

Egypt has gradually moved to increase its arms purchases from Soviet and East European suppliers in recent months, in some instances marking the first orders negotiated in many years. The new agreements are largely calculated to prolong the life of Soviet-style equipment in Egyptian inventories. The accords also reflect Cairo's effort to improve relations with Moscow and its allies, reduce its dependency on the United States, and demonstrate its pursuit of a policy of nonalignment. We believe such purchases are likely to continue but that they will not be substantial.

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Before Sadat's expulsion of Soviet advisers from Egypt in 1975, Moscow had been Egypt's principal arms supplier, having provided some \$4 billion in naval vessels, missiles, jet fighters, tanks, and other equipment since 1955. During the same period Moscow's East European allies provided an additional \$500 million in military equipment. After 1975, and until recently, Soviet and East European agreements and deliveries of military equipment to Egypt had fallen to almost nothing. Since January of this year, however, Cairo has negotiated or agreed to buy \$190 million in military equipment from the USSR and some key East European countries:

- Romania has sold at least 200 domestically produced T-77 tanks as part of its first agreement with Egypt in more than three years.
- Czechoslovakia is selling spare parts for Soviet made T54/55 tanks and is overhauling L-29 jet trainers in the Egyptian inventory.
- Hungary received an order for \$2.5 million in unspecified military equipment, the first Hungarian-Egyptian deal since 1974.

- East Germany will overhaul Soviet-made MIG aircraft in Egypt as part of its first order from Egypt since 1970.
- The USSR has been negotiating with Cairo to sell 30 MI-17 helicopters worth \$120 million. Egypt has reportedly agreed to buy the helicopters but has not yet accepted shipment. Moscow has, however, secured a small contract with Egypt for vehicle spare parts.

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Sales Impetus

Egypt's primary goal in these arms deals appears to be the replacement or repair of the large amounts of Soviet-made equipment in its arsenal that has fallen into disrepair or become obsolete. Cairo is also motivated by the lower cost of some of the equipment, and the strongly felt need to avoid developing the same degree of dependency on US and Western equipment that it developed on Soviet equipment. Moreover, Cairo apparently believes that reopening its arms relationships with Moscow and the East European capitals may contribute to President Mubarak's efforts to balance Egypt's East-West relations.

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Mubarak has sought to deemphasize Egypt's public ties with the United States in order to propel Cairo back into the mainstream of the Arab world and restore Egypt to an active role in the Third World. Pursuit of these objectives is tempered by Cairo's reluctance to move too quickly toward the Soviet Union and jeopardize its access to US military and economic aid. [REDACTED]

The Romanian tank accord and the on-again, off-again M-17 helicopter deal with Moscow reflect the tension among these competing objectives. The Egyptian Army's five-year modernization plan calls for the purchase of 900 US-made M-60 tanks to replace its aging T-55 tanks. Cairo reportedly felt it could not afford to underwrite the full purchase of the US equipment and has found the Romanian tanks a relatively less expensive alternative because their unit cost is one-fourth that of the M-60. It is not yet clear whether Cairo will buy more than 200 of the Romanian T-77s or complete its modernization program with US-made tanks. The M-17 helicopter that Cairo has reportedly considered buying for delivery over the next two years is the civilian version of the MI-8, but features an upgraded engine and would be new to Egypt's inventory. The Egyptians already have the US-made CH-47 Westland Commando, the French-made Gazelle, and the Soviet MI-6 and MI-8 helicopters. [REDACTED]

[REDACTED] Moscow would consider any major sale to Egypt of significant political value—as a sign of resurgent influence in the area—and may well offer attractive financial terms. [REDACTED]

Logistic factors probably also play an influential role in promoting Warsaw Pact-Soviet arms sales to Egypt. According to reporting from US military sources, Egypt is frustrated at times by the high costs and long leadtimes in Western delivery programs and by the US system for spare parts, supplies, and maintenance. The Egyptians are still accustomed to the Soviet scheme of a one-for-one duplication of spare parts for a given weapon system and have yet to accept the US system of not stocking parts of proven

reliability. The Egyptian military services' maintenance, training, and logistic problems are already substantial because Egypt has received arms from such varied sources as China, France, the Soviet Union, and the United States. Moreover, a significant part of the current senior officer corps trained in the USSR and familiar with Soviet systems is more comfortable with the Soviet military supply system and not unwilling to do business with the Soviet Union as well as the United States. [REDACTED]

Near-Term Prospects

We believe Cairo will continue to look to the West, especially the United States, for most of its new weapons, especially new high-technology systems. The Egyptians are now training the vast majority of their up and coming officers in the United States. This training should have a significantly positive effect in favor of the United States in the next generation of top leadership. However, this reliance on the West will not deter—and may even encourage—Cairo from considering arms deals with Communist suppliers that prolong the life of its Soviet equipment and improve relations with Communist countries. We believe Egypt will continue to diversify its sources of arms and try to obtain essential support, including from the Soviet Union, for its large inventory of Soviet equipment. We doubt, however, that Soviet assistance will significantly affect Egypt's basic strategy, which remains centered on a wariness of Soviet ambitions in the region. [REDACTED]

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Portugal: A Small but Unique Arms Supplier [REDACTED]

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Summary

Portugal, which exports a limited range of military goods and services, has sold some \$285 million in arms in the past five years. Lisbon has concentrated its arms sales activities on the exploitation of unique opportunities in the Persian Gulf and in Portuguese-speaking Africa where its inability to offer the complete line of advanced weapons or the extensive credit available from Western competitors is less of a disadvantage. We believe that Portugal wants to expand its military-related exports and indeed may use the negotiations over US base rights as a lever to obtain more US equipment servicing contracts. Portugal's arms sales to Middle East and African nations, where a direct US role is difficult, help extend Western interests and provide an opportunity to displace Bloc sales and influence. [REDACTED]

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The Iran-Iraq War: Ground Forces Equipment

Portugal's principal arms export capability lies in providing equipment for ground forces. Lisbon has exported the needs of both parties to the Iran-Iraq war, and almost 60 percent of Portugal's arms exports from 1978 to 1982 went to these two countries (table). According to reports from US defense attaches [REDACTED] Lisbon sold \$87 million worth of 81-mm mortars, 105-mm artillery pieces, grenades, and mines to Iraq—the largest customer—under an arms-for-oil contract signed in 1981. According to attache reports, Iran, Lisbon's second-largest customer, purchased \$69 million worth of 106-mm recoilless rifles and 81-mm mortars of ammunition, artillery, and small-arms ammunition. [REDACTED]

Logistic problems, which have recently created difficulties in Portugal's arms-for-oil trade with Iraq, will probably provide further impetus to Lisbon's recent efforts to increase sales to Iran. [REDACTED]

[REDACTED] quality control problems and a ship

repair yard strike have delayed Portuguese arms deliveries to Iraq, prompting Baghdad to inform Lisbon that, unless its concerns are alleviated by high-level assurances, Iraq will stop buying arms from Portugal. [REDACTED]

Coincident with the problems encountered in the arms supply relationship with Iraq, [REDACTED]

[REDACTED] Portugal recently sold an additional \$48 million worth of 105-mm and 155-mm ammunition to Iran. In addition, [REDACTED]

[REDACTED] Portuguese arms firms have been authorized to receive Iranian military delegations to inspect Portuguese arms production, facilities, and equipment and that Iran may be interested in using Lisbon as an alternative source of 7.62-mm, 9-mm, and 81-mm ammunition—all of which Portugal can produce in large quantities. [REDACTED]

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Portuguese Arms Sales, 1978-82

Recipient	Amount (Nearest million US dollars)	Equipment or Service
Total	285	
Asia and Pacific		
India	1	105-mm ammunition, small-arms ammunition
Pakistan	NA	140 105-mm howitzers, ammunition
Latin America		
Bolivia	7	Small-arms ammunition, 81-mm mortars
Brazil	16	60-mm ammunition, small-arms ammunition
Chile	1	Machineguns
Colombia	3	Ammunition, explosives
Guatemala	2	Ammunition
Peru	NA	Machinegun spare parts
Middle East		
Iran	69	106-mm recoilless rifles and 81-mm mortars with ammunition, artillery, and small arms ammunition
Iraq	98	Explosives, 105-mm artillery pieces, 61-mm mortars, grenades, mines
Lebanon	4	30 Chaimite APCs, ammunition, grenades
Syria	1	Explosives
Sub-Saharan Africa		
Angola	24	Ammunition, explosives, weapons repair, quartermaster items
Cape Verde	NEGL	Military training assistance
Mozambique	4	Four Noratlas transport aircraft (used), quartermaster items, military training, small arms
South Africa	55	G-3 rifles with ammunition

Lusophone Africa: Training Services

Portugal's recent efforts in Africa have focused on developing security ties with Portuguese-speaking African states in line with its policy of reasserting political and military influence in its former colonies.

Since 1978, Lisbon has discontinued its sales of weapons to South Africa, presumably to avoid censure for violating the embargo against South Africa and so as not to antagonize potential African customers.

Attache reports [] indicate that Portugal has drawn on combat experience gained during the African campaigns of the 1960s and 1970s to promote its training services. Lisbon has offered training as a separate and growing aspect of its arms sales effort in the region:

- According to attache reports, technical training has been provided to Cape Verde.
- Attache reports note that counterinsurgency training will be provided under a military cooperation agreement signed with Mozambique in April 1982.
- [] Lisbon has agreed to train Angolan troops in counterinsurgency warfare. [] Angola's recent expression of dissatisfaction with the ineffectiveness and demoralization of Cuban advisers probably underlies its request for Portuguese training.
- [] naval cadets from Guinea-Bissau have received training at the Portuguese Naval Academy. []

We believe Lisbon, like all arms suppliers, uses training opportunities to develop closer relations with foreign officers and government leaders in an attempt to influence future purchases of Portuguese military and commercial goods. Media reports suggest that Portugal hopes to develop Lusophone Africa into a major market for Portuguese arms. Attache reports note that Mozambique has become increasingly dissatisfied with the quality of equipment supplied by the Soviets. Attache [] report that Lisbon, in possible anticipation of expanding its arms supply relationship with Mozambique, extended an \$8.5 million line of credit and appointed a military attache to Maputo in early 1983. []

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The prospect for significant growth in the African market is limited because of political, economic, security, and logistic constraints. Lisbon's poor financial situation limits its ability to offer credit to all but a few sales. [REDACTED]

[REDACTED] Lisbon has also denied requests by Angola and Mozambique for in-country military training because of the risk to Portuguese personnel posed by the conflicts in those countries. Moreover, the market in Angola and Mozambique for Portuguese equipment is limited because the large amount of Soviet-style equipment makes the infusion of incompatible Portuguese arms difficult. [REDACTED]

NATO: Servicing and Maintenance

Lisbon would like to develop a capability to service and maintain NATO equipment and argues that its membership in NATO, strategic position, and low wage rates are to its advantage, according to US Embassy reports. In talks with US officials, Adm. Souto Cruz, Vice Chief of the Armed Forces General Staff, has noted that Lisbon would be in a better position to facilitate NATO airlift and sealift operations if it were provided with the capability to service NATO equipment. In addition, Souto Cruz pointed out that Portugal's position far from the theater of war would enable NATO to mount a staging operation there. [REDACTED]

Portugal's greatest servicing capability lies in the aeronautics field. According to attache reports and trade brochures, Oficinas Gerais de Material Aeronautico (OGMA) has excellent aircraft overhaul facilities and holds maintenance contracts with the US Air Force, US Navy, and West German Air Force. OGMA is also a service center for Lockheed C-130 Hercules transports and Aerospatiale Alouette III and Puma helicopters in the Portuguese inventory. In an effort to expand its maintenance and overhaul business, OGMA has also promoted its services at the Paris and Farnborough Air Shows. [REDACTED]

Opportunities in the naval and ground forces sector are more limited. According to attache reports, Portugal has three shipyards—Alfeite, Lisnave, and Setenave—capable of performing quality naval overhaul

work. Lisbon has urged Washington to use Lisnave for servicing of the US Mediterranean fleet. However, shipyards in most NATO countries are operating below capacity and would probably be unwilling to send their ships to Portugal for maintenance. Similarly, two Portuguese firms—Sorefame and Bravia—could rebuild armored vehicles and personnel carriers, but NATO members also have domestic industries capable of performing these services. [REDACTED]

Prospects

Portugal's arms sales proposals have only a limited impact on US interests. On the negative side, one of the most serious problems is Portugal's effort to use the negotiations over US base agreements as a lever to obtain additional US equipment servicing contracts. Lisbon has already demonstrated its willingness to tie base rights to US concessions in other areas. According to US Embassy reports, Lisbon implied during negotiations in July 1983 that Portugal would agree to a 10-year—rather than seven-year—base lease only if a larger proportion of US economic aid after 1985 was extended in the form of grants. In addition, Lisbon, which has often felt that its loyalty to NATO is unappreciated,¹ would probably view US willingness to grant additional servicing contracts to Portugal as one indication of Washington's commitment to the strengthening of the Portuguese defense and economic situations. [REDACTED]

The United States benefits marginally from Portuguese arms sales because they help extend Western influence in countries where the United States does not have a direct arms supply relationship. Lisbon's arms sales to Iraq help to maintain Baghdad's military capability in its war with Iran. Portugal's sales emphasis on Lusophone Africa also serves Western interests by undermining Soviet and Cuban influence in the region. [REDACTED]

[REDACTED]

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Military Spare Parts Sales: Sizing the Problem

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Summary

The completion of many military modernization programs and the impact of the global economic recession on defense budgets suggests that sales of spare parts for military equipment and weapons systems will become an increasingly important share of the international arms market in the next few years. The magnitude of such sales even at present is, however, difficult to estimate. For example, current accounting and reporting techniques suggest that spare parts sales accounted for less than 2 percent of the value of all recorded West European and Third World arms sales. This is far out of line with the US experience; 26 percent of US arms sales are for spare parts. On the basis of our new estimates, we believe spare parts sales by West European and Third World suppliers are four to six times as large as recorded sales indicate.

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Sales of spare parts for military equipment are likely to become an increasing share of the international arms market. Arms sales have stabilized because oil-wealthy countries have reduced their massive purchases, other countries have completed their military expansion programs, and the global economic recession has made most others less willing and able to purchase new military equipment. As sales of new equipment level off, the demand for spare parts will grow as these countries move to keep the equipment already in their inventories in working order.

Tracking the increase in the sales of spare parts, or even current levels, is complicated by current reporting and accounting procedures. These techniques suggest that sales of spare parts, either as separate items or included in weapons agreements, account for only \$1.8 billion of all known arms sales by Western and Third World suppliers between 1954 and 1981. This amounts to slightly more than 1 percent of the \$133

billion in security assistance provided by these countries during this time period. If agreements for construction, support equipment, training, ammunition, quartermaster supplies, and other consumables are excluded, spare parts still account for less than 2 percent of all weapons sales.

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We believe that such estimates grossly underestimate the volume of spare parts sold by these suppliers. Data from the Defense Security Assistance Agency (DSAA) show that spare parts for US-supplied military equipment accounted for more than \$18 billion or more than 15 percent of all US Foreign Military Sales between 1950 and 1981.¹ When ammunition, training,

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¹ The FMS program accounts for about 60 percent of all US arms sales. Commercial sales make up the next largest component. Although we do not have complete data, spare parts appear to account for a higher percentage of commercial sales, perhaps more than 50 percent for major customers.

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Table 1
Value of US Spares Sales
1954-81

Billion US \$
(except where
noted)

Type of Equipment	Percent of Total Sales	Total Value	Value of Spares	Percent of Total Value
Total	60	71.9	18.8	26
Ground forces vehicles and weapons	11	11.3	3.1	27
Naval vessels and weapons	4	4.8	1.8	38
Aircraft	31	38.7	11.1	29
Missiles	11	13.9	2.1	15
Electronics	3	3.2	.7	22

construction, and other ancillary items are removed from the total, the value of spare parts sales increases to 26 percent of all sales. [REDACTED]

[REDACTED] West European sales, at least by the major suppliers, are closer to US sales than currently recorded transactions indicate. [REDACTED]

Table 2
Value of Western and Third World
Spares Sales, 1954-81

Type of Equipment	Value (billion US \$)	x	Estimated Percent of Spares	= Value of Spares (billion US \$)
Total	95.1			8.0-13.2
Ground forces	22.3	x	.09-.14	= 2.0-3.1
Naval	18.1	x	.09-.14	= 1.6-2.6
Aircraft	30.5	x	.10-.15	= 3.1-4.6
Missiles	14.1	x	.05-.08	= 0.7-1.1
Electronics	08.1	x	.07-.11	= 0.6-0.9

By extrapolating US sales of spare parts and by making certain assumptions about the behavior of other suppliers, we have estimated the value of spare parts sold by these suppliers. A conservative estimate would be that foreign Western suppliers provide a minimum of one-third to as much as one-half as many spare parts as does the United States for comparable weapons systems. They sometimes sell stripped-down versions of expensive weapons systems with minimal spare parts packages at low prices. These "loss leaders" are compensated for by subsequent sales of overpriced spare parts. According to press reports, France has sold many of its Mirage aircraft using this marketing technique. Recipients, confronted with this situation or unwilling to employ proper maintenance procedures, often fail to order adequate spare parts. Spare parts have also been withheld for political and economic reasons during crises or for lack of payment. Breaking down West European and Third World arms sales by equipment type and multiplying this figure by both one-third and one-half of US spare parts percentages for the same type of equipment produces a value range of \$8-13 billion in unreported

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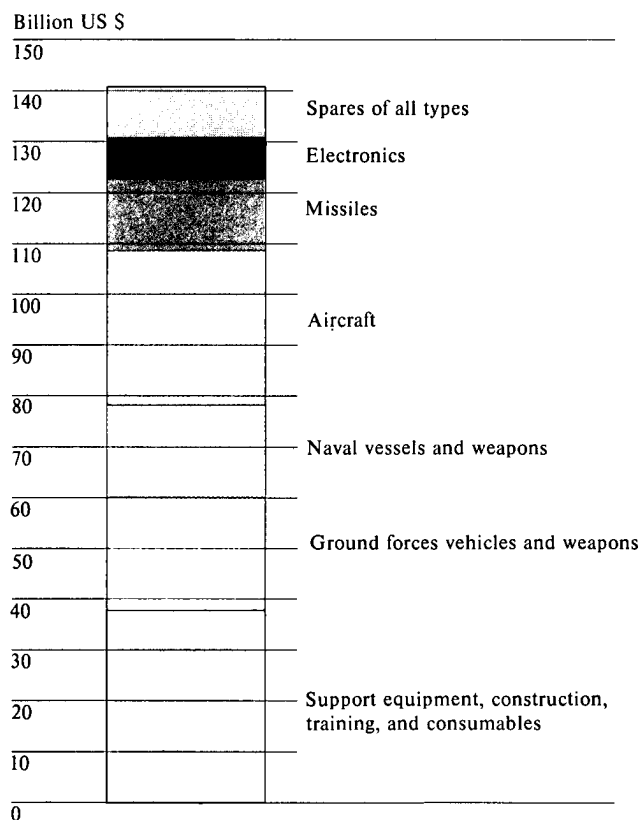
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Reported Western and Third World Arms Sales, 1954-81



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spare parts sales.² This is four to six times the amount accounted for by reported sales, which make up 9 percent of total arms sales (figure 1).

² Spare parts percentages differ for different weapons types. Missiles, whose propulsion systems are not subject to repeated use, require the lowest percentage of spare parts. The high percentage of naval spare parts, according to DSAA officials, is the result of accounting procedures that often list a ship's navigation, fire-control, propulsion, and armaments systems as initial spare parts for a hull even though they are fitted to a ship before it is sold. In reality, naval spare parts are probably closer to those for air and ground forces equipment.

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International Aid

The International Refugee Problem

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Summary

Most refugees originate in developing countries. They are the unhappy byproducts of war, civil unrest, and social and economic uncertainty. A recent estimate of global refugees places the number of people currently in need of protection by, and care and maintenance from, the international community at 7.7 million. This figure excludes those who receive assistance from national or local rather than international sources and those who have means of their own. The cost of these refugee movements is large; the United States spent more than \$1 billion in 1983.

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Despite recent success in coping with the problems of some refugees in Southeast Asia and Africa, we expect the problems of refugee movements and the need for assistance to continue at near current levels. Central America remains the most likely area for a rapid increase in refugees.

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The economic, social, and political costs associated with the refugee situation are enormous. At least 11 million people are currently seeking refuge outside their own countries—victims of war or political and cultural persecution. Of this number, the State Department identifies more than 7.7 million as requiring protection and assistance from the international community. As compared with a small number of European nations after World War II, there are now 33 countries—mostly in the Third World—that are the principal sources of the world's refugees. By far the largest is Afghanistan, with 3.4 to 4.5 million of its citizens having fled to Pakistan and Iran.

On an individual level, the toll levied in human misery can barely be comprehended. Fear, malnutrition, disease, and death are both the precipitators and constant companions of refugee flight. Refugee movements can also work hardships at the national level.

The generating countries inevitably lose valuable human capital when their citizens flee abroad, and for receiving countries the advent of refugees, especially those of different ethnic backgrounds, is often an unexpected and unwelcome event.

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Regional Survey

South Asia. The Marxist coup in Afghanistan in 1978 followed by the Soviet invasion and the subsequent war between USSR/Democratic Republic of Afghanistan forces and the Mujahedin freedom fighters have created the largest current refugee population in the world. Fleeing from political repression, the threat of religious persecution, and the ravages of war, an estimated 3 million Afghans have found sanctuary in

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The 1951 UN Convention Relating to the Status of Refugees

This convention defines a refugee as a person who, "... owing to well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group, or political opinion is outside the country of his nationality (or habitual residence) and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country." Despite a 1961 General Assembly resolution that extends this definition by encouraging the United Nations High Commissioner for Refugees "to pursue his activities on behalf of refugees within his mandate or those for whom he extends his good offices," the definition of refugees remains a highly restrictive one and does not include millions of internally displaced persons who have fled persecution or the ravages of war, but have not crossed an international boundary.

Pakistan and perhaps an additional 1.5 million are in Iran. The prospects for peace and successful large-scale repatriation will remain slight unless the Soviets withdraw and an Islamic government acceptable to the refugees and the Mujahedin is established in Kabul. These conditions seem unlikely in the near future, and the Afghan refugee populations probably will remain in asylum and continue to increase.

Elsewhere in the region, communal animosities in Pakistan, India, and Sri Lanka pose a constant threat to public order. The recent communal riots in Assam and Sri Lanka underscore the potential of this threat. Religious, racial, and economic jealousies are likely to spark renewed violence producing heavy refugee flows.

East Asia. Since the fall of Saigon in April of 1975, Vietnam, Laos, and Kampuchea have been the primary sources of refugees in East Asia. Under Hanoi's direction the restructuring of these societies along traditional Marxist-Leninist lines has severely restricted individual freedom and systematically persecuted many of those who were associated with former regimes or with the US effort in Indochina. In

Table 1
Number of Refugees Requiring Protection and Assistance in Principal Generating Countries ^a

Africa	
Angola	273,000
Burundi	160,000
Ethiopia	833,100
Namibia	74,800
Rwanda	102,000
Uganda	287,000
Zaire	51,400
East Asia	
Kampuchea	98,000
Laos	75,800
Vietnam	49,700
Latin America	
Chile	30,000
El Salvador	63,700
Guatemala	41,500
Nicaragua	77,000
Near East	
Iraq	100,000
Palestinians	1,954,000
Western Sahara	50,000
South Asia	
Afghanistan	3,400,000-4,500,000
Europe	
Eastern Europe-USSR	100,000+

^a Because of the difficulties associated with defining and enumerating refugees, these figures represent only one of several estimates and should be regarded as orders of magnitude.

Source: Country Reports on the World Refugee Situation, Report to the Congress for Fiscal Year 1984, Department of State.

addition, armed conflict between Vietnam and resistance forces continues in Kampuchea, presenting a constant threat to large numbers of Kampuchean civilians. As a consequence, more than 1.5 million refugees have fled Indochina since 1975. The flow has

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Table 2
Number of Refugees Requiring Protection
and Assistance in Principal
Asylum Countries ^a

Africa	
Angola	96,200
Burundi	58,000
Djibouti	31,500
Rwanda	45,000
Somalia	400,000
Sudan	600,000
Tanzania	168,700
Zaire	269,400
Zimbabwe	88,000
East Asia	
Hong Kong	13,600
Indonesia	9,282
Malaysia	11,500
Philippines	17,180
Thailand	144,700
Vietnam	30,000
Latin America	
Costa Rica	36,000
Honduras	45,600
Mexico	45,500
Nicaragua	18,000
Near East	
Algeria	54,000
Iran	560,000-1,500,000
Jordan	759,000
Lebanon	246,500
Syria	225,000
Gaza Strip	381,000
West Bank	345,000
South Asia	
Pakistan	2,900,000
Europe	
Austria	10,000
Italy	10,000

^a Because of the difficulties associated with defining and enumerating refugees, these figures represent only one of several estimates and should be regarded as orders of magnitude.

Source: Country Reports on the World Refugee Situation, Report to the Congress for Fiscal Year 1984, Department of State.

diminished in recent years, but each month several thousand people manage to escape and seek refuge in neighboring, non-Communist countries. []

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The prospects for improved political and economic conditions in Indochina are not bright. The political consolidation of South Vietnam continues, as does the "reeducation" campaign. In Kampuchea the food situation has improved, but the continuing weakness of the Kampuchean Government in the face of resistance forces and the growing evidence of an extensive influx of Vietnamese settlers ensures the continued presence of Vietnamese forces. This military threat against Khmer nationals has created an internally displaced population along the Thai border of more than 200,000. []

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Under these conditions the pressure on disaffected Vietnamese, Khmer, and Lao to seek refuge beyond the region probably will not diminish. However, the enforcement of more stringent refugee admission requirements by the traditional resettlement countries in concert with Thailand's policy of "humane deterrence" reduces the hope of successful escape and the actual number of new arrivals. Nonetheless, the potential for a renewed surge of refugees from Indochina remains great should resettlement opportunities improve, repression intensify, or Hanoi adopt a policy of generating refugees as it did in 1978-79 when it forced out ethnic Chinese. []

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Other Southeast Asian countries also have the potential to generate refugee flows. If a military regime were to come to power in the Philippines, aggressive measures would probably be taken against the opposition, and hundreds of thousands of Filipinos could be displaced. All probably would need assistance from the international community and could turn to other countries for asylum or resettlement. Further down the road, a possible Chinese takeover of all Hong Kong when the New Territories Lease expires in 1997 could initiate a massive emigration of Chinese reluctant to live under Beijing's jurisdiction. []

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Latin America. Of the 225,000 Latin American/Caribbean refugees currently receiving protection and assistance, more than 80 percent originated in Central America. The Nicaraguan, Salvadoran, and Guatemalan conflicts have resulted in an unprecedented refugee flight from these three countries. The latest figures indicate that more than 180,000 people are receiving assistance in foreign countries, principally Honduras, Mexico, and Costa Rica, but reports vary and the total number of refugees may be much larger. One US Government source estimates that there are only 30,000 to 40,000 refugees in Mexico, while a paper discussed at a recent symposium suggests that the number may be as high as 250,000. Throughout the region an additional 740,000 are internally displaced, and large numbers of additional refugees may be uncoun- []

In addition, it is possible that during the next 12 months there will be increased conflict in Guatemala, and violence in El Salvador will probably continue at current levels, if not intensify. These events could sharply increase the number of refugees in this region over this period. []

Middle East. Palestinians make up the oldest continuing refugee group in the world today. Most fled present-day Israel following the 1948 Arab-Israeli war. Of the estimated 4 million Palestinians in the Middle East, 2 million are registered as refugees with the United Nations Relief and Works Agency. The greatest number of registered Palestinian refugees, 760,000, is in Jordan where they are afforded indefinite residence privileges and the right to seek citizenship. An additional 244,000 refugees are in Lebanon, 225,000 are in Syria, and 726,000 remain in Gaza and on the West Bank which were occupied by Israel during the June 1967 war. In the short term, it seems certain that most Palestinians will continue to live as frustrated and frequently unwelcome residents of Israeli-occupied territory and the countries bordering Israel. []

A significant number of Lebanese have also been displaced by the war in their country. The fighting between the Druze and the Lebanese Army has forced 150,000 Lebanese to flee into Israeli-occupied southern Lebanon. If the fighting intensifies, so too does

the probability of large-scale refugee flight. Syria and Israel would be the most likely destination for these people. []

Africa. In most cases refugee problems in Africa have been caused by the instability associated with the process of consolidating disparate ethnic, social, and cultural groups into independent, unitary states. The 1.8 million refugees and 1 million displaced persons currently adrift on the continent have fled from civil strife, economic disruption, and political/cultural persecution that are endemic in this process. Relatively few in number by Third World standards, these refugees do not constitute in many cases serious domestic political problems for the host countries and more often than elsewhere in the world are successfully repatriated. An exception, however, is the situation in the Horn of Africa where the 1974 coup in Ethiopia and the ongoing struggle for territorial control have sent more than 400,000 Ethiopians and Eritreans fleeing to the Sudan and an equal number of ethnic Somalis to Somalia. []

We believe the probability is low that the causes of refugee flight in Africa will be corrected in the short term. Political and economic stability are not likely to be achieved any time soon. In Ethiopia the Communist regime is still engaged with strong separatist and opposition forces, and until these struggles cease they will continue to have the strong potential for generating additional refugee flight. A renewed threat exists in Chad where during the past few years more than 100,000 refugees took flight and were subsequently repatriated. If the Libyan campaign succeeds in causing open warfare in the heavily populated southern regions, huge numbers of refugees may again cross the borders into Cameroon and Nigeria. []

Europe. European refugee flows originate exclusively in Eastern Europe and, for the most part, are a response to the oppressiveness of Communist systems. Closed borders and close control over internal mobility generally eliminate the possibility of rapid, large-scale flight. While illegal exit is still possible, most of those who reach the West do so with permission.

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Thus, the volume of refugee flow will fluctuate with changes in emigration policy. []

Events such as the introduction of martial law in Poland should be considered an exception; an estimated 200,000 Poles were out of the country when the decree was announced. Although many chose to return to Poland, more than 40,000 applied for temporary asylum in Austria and more than 10,000 decided not to return. For most East European refugees, Austria is the country of first asylum. Five to 10 percent settle there, while others are resettled in third countries, primarily France, the United States, Canada, and Australia. []

Prospects

In all refugee situations voluntary repatriation is the preferred solution. Africa is the only major refugee generating region where voluntary repatriation has occurred in 1983; more than 50,000 Chadians, Ethiopians, and Ugandans were able to return to their homes. Elsewhere, the numbers of returnees were much smaller, and there is little reason to believe that repatriation will become a viable alternative in the near future. []

When repatriation is not possible, resettlement to a third country may lead to the best outcome for refugees. This alternative is expensive, however, and, as admissions programs continue to shrink, so do the opportunities. If current trends continue, the opportunity for third-country resettlement may be available to only a very few of the world's refugees. []

Failing repatriation or resettlement, the options that remain open are continued asylum, and perhaps eventual assimilation, or forced repatriation. In many situations assimilation is a real possibility, but for large populations—such as the Afghans in Pakistan—or where ethnic or racial tension is strong the prospects are not bright and forced repatriation is a real threat. []

Despite recent successes with resettling Indochinese refugees and repatriating some of those in Africa, there is no reason for the international community to believe that the global problems of refugee movement and the need for assistance will decrease. In every

region surveyed, there is a strong potential for additional, rapid, massive, and costly refugee flight. Central America currently presents the most imminent threat. [] 25X1 25X1

For both political and practical reasons it will continue to be difficult to plan for future refugee situations:

- By the limits of his mandate, the United Nations High Commissioner for Refugees can only react to ongoing refugee situations and only after he is invited by the host government.
- Although open conflict caused by international aggression, as in Indochina and Afghanistan, or domestic turmoil, as in Central America, Lebanon, and much of Africa, almost always generates associated refugee flows, no one can predict the magnitude.
- Making public preparations for expected refugee flows may actually encourage potential refugees to flee their present circumstances and thus precipitate large-scale migrations. [] 25X1 25X1

The burden of providing first asylum has also created international tension as the traditional resettlement countries steadily reduced their admissions programs during the past three years. The current host countries, especially those in Southeast Asia, are concerned that they may inherit large refugee populations that cannot be resettled out of the region. At a recent international symposium on refugee movement, there was some discussion of "compassion fatigue" beginning to appear among donor/resettlement countries. If this is indeed the case, the United States, which over the past 10 years has provided funding for 30 to 40 percent of UN refugee programs, will be asked to shoulder an even larger share of the burden. [] 25X1 25X1

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Narcotics

Bolivia: Drug Business Booming

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Summary

The democratic government of President Siles has not curbed the burgeoning problem of coca production and trafficking, despite the public promises and US pressure for more effective control. We believe several factors account for this: (1) Siles's reluctance to antagonize the powerful narcotics traffickers politically and economically; (2) the absence of law enforcement in the coca-growing regions; (3) rampant corruption; and (4) natural disasters driving more farmers into coca-growing areas. Washington and La Paz recently signed a narcotics control agreement, and the new Minister of the Interior seems willing to cooperate. Nevertheless, we doubt the government's track record on narcotics control will improve in the face of the enormous—and growing—size of the problem and current political and economic obstacles.

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Faltering Efforts at Coca Control

Upon assuming the presidency last October, Siles took a strong public stand against narcotics trafficking, but his subsequent modest actions have had little effect.

In April he established a national committee to coordinate the fight against the drug trade and gave it authority over the narcotics police. In June Siles initiated—at the insistence of the most powerful farmer organizations—a research program to investigate the possible “industrialization” of coca to increase legitimate demand. In our opinion, neither of these measures has much potential. The unclear directive of the national committee weakens its authority, and the likelihood of expanding the legal uses of coca is small.

The United States has encouraged the Bolivian Government to take concrete steps to reduce coca production. In August, the US Embassy persuaded Siles to sign a narcotics control agreement that includes politically unpopular provisions on coca reduction and aid

for additional coca control projects. Full implementation appears unlikely, however, because of Bolivian national attitudes.

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Most Bolivians generally believe that coca leaf production and consumption is an untouchable tradition. Even President Siles regards cocaine trafficking as essentially a US problem, largely because there is little problem with domestic narcotics consumption. Another factor in the rapid expansion of the cocaine industry over the last year has been the absence of government control in the major coca-producing areas. Since late 1982, when a number of narcotics police were killed by campesinos and local demonstrations pushed police out of several coca regions, Siles has not sent replacements to return the areas to government control.

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We believe the President is not likely to risk antagonizing the traffickers by forcefully reasserting a police presence. The largest traffickers have reaped immense profits, which enable them to hire private armies, control local politics in their areas of operation, purchase immunity from enforcement agencies and the courts, and even buy influence at the national level. Some are reportedly willing to finance a military coup if the Siles administration threatens their activities. We do not believe that the traffickers alone are capable of deposing the President, but, in view of his other problems, Siles probably feels he cannot afford the added complications that a war on drug dealers would entail. The most notorious offender has been Roberto Suarez, whose fortune is estimated by the government at \$400 million. Suarez claims to be a patriotic rancher and reportedly uses his money to finance public works in areas over which the government no longer has control to cement his influence.

Extensive corruption is the most obvious manifestation of the traffickers' power.

civilian and military officials at all levels are either bought off or directly involved with the narcotics industry. Although there are no indications that Siles is involved, the extent of corruption has left too few untainted officials to carry out programs for coca reduction.

The Ministry of the Interior—which is nominally responsible for coca control and therefore has more access to the industry—is particularly susceptible to corruption.

The new minister, Jose Ortiz, is believed to be honest but he lacks experience.

The narcotics problem has been complicated by recent natural disasters. Campesinos, whose crops and livestock have been destroyed by the severe drought this year, are leaving the Altiplano and settling in the coca-growing areas. The same is true of farmers from the eastern lowlands, where crops have been devastated by floods. Moreover,

the coca cultivation had begun to expand beyond traditional growing areas. The combination of more farmers, increased land under cultivation, and high returns will almost inevitably lead to continued growth in coca production.

Outlook

On the positive side, the new US-Bolivian agreement offers some hope by increasing the level of US aid to combat the cocaine industry. The appointment of Interior Minister Ortiz also should improve US-Bolivian cooperation. On the negative side, however, the proportions of the problems are overwhelming and increasing. Siles's attention will continue to be focused, in our view, on trying to strengthen the political and economic base of his frail democratic regime. This effort could easily be threatened by a serious campaign against the traffickers. The cocaine industry seems likely to thrive under this administration and to continue to be a major problem under any government in the future.

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